

Message Text

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ACTION EB-07

INFO OCT-01 ISO-00 NEA-10 AID-05 CIAE-00 FRB-01 INR-07
NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06 SP-02
LAB-04 EPG-02 SIL-01 OMB-01 STR-04 SCA-01 L-03
CU-04 HEW-06 /084 W
-----312229Z 006065 /64

R 311126Z MAY 77
FM AMEMBASSY CAIRO
TO SECSTATE WASHDC 5579
INFO AMEMBASSY ABU DHABI
AMEMBASSY AMMAN
USINT BAGHDAD
AMEMBASSY DAMASCUS
AMCONSUL DHARAN
AMEMBASSY DOHA
AMEMBASSY KUWAIT
AMEMBASSY MANAMA
AMEMBASSY MUSCAT
AMEMBASSY TEHRAN
AMCONSUL SHIRAZ
USDOC WASHDC
AMEMBASSY JIDDA

UNCLAS CAIRO 9011

E.O. 11652: NA
TAGS: ETRD, EFIN, ELAB, BEXP
SUBJ: 1976 TAX REFORM BILL: IMPACT ON U.S. PRESENCE ABROAD

REF: (A) KUWAIT 2512, (B) ABU DHABI 1494

1. SUMMARY. WE FIND REFTELS PARTICULARLY COGENT ON PROBLEM
POSED BY 1976 TAX REFORM ACT AMENDMENTS TO SECTION 911, INTERNAL
REVENUE CODE. BASED ON OUR OBSERVATIONS IN CAIRO , REPORTED
BELOW, LONG-TERM EFFECT WILL BE A REDUCED AMERICAN PRESENCE
ABROAD. MOST IMPORTANT QUESTION IN WHAT SHOULD BE DONE AT THIS
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TIME. END SUMMARY.

2. SITUATION OF AMERICANS IN EGYPT IS SOMEWHAT DIFFERENT WITH
REGARD TO THE IMPACT OF THE RECENT INCOME TAX RISE, BROUGHT
ABOUT BY THE PROVISIONS OF THE 1976 TAX REFORM ACT, THAN THOSE
OF AMERICANS IN THE GULF AS REPORTED REFTELS. MOST AMERICANS
LIVING AND WORKING IN CAIRO ARE EMPLOYED BY PETROLEUM EXPLORATION,

PRODUCTION, OR OIL SERVICE COMPANIES. THEY LOOK, IN FIRST INSTANCE, TO THEIR COMPANIES TO PROVIDE MEANS TO COPE WITH THE INCREASED TAX WHICH WILL RESULT FROM ADDITION OF VARIOUS ALLOWANCES TO THEIR TAXABLE INCOME (WHICH ARE QUITE SIZEABLE BECAUSE OF HOUSING COST INFLATION AND HIGH EDUCATIONAL COSTS IN EGYPT). EXTREME CONCERN WHICH WAS INITIALLY EXPRESSED BY MANY COMPANIES HAS BEEN EASED CONSIDERABLY BY REPEAL OF RETROACTIVE PROVISION. COMPANIES FEEL THEY NOW HAVE TIME TO COST OUT NEW PROVISIONS AND DEVELOP PLANS AS TO HOW TO COPE WITH SITUATION. LARGER COMPANIES PROBABLY WILL BE WILLING AND ABLE TO ABSORB INCREASED COSTS RELATED TO HELPING EMPLOYEES PAY ADDITIONAL TAX. EVEN SOME OF THESE COMPANIES, HOWEVER, HAVE BEGUN TO MOVE PERSONNEL TO PERMANENT QUARTERS OUT OF EGYPT BECAUSE OF HIGH MAINTENANCE COSTS AND RELATED INCREASE IN INCOME TAXES. THIS MEANS PERSONNEL COMMUTE TO JOBS IN EGYPT FROM MALTA, CYPRUS OR ELSEWHERE ON 30 DAY TDYS, WITH RESULTING FAMILY AND OTHER PERSONNEL PROBLEMS.

3. SMALL PETROLEUM-RELATED COMPANIES ANTICIPATE THAT THEY WILL PROBABLY BE FORCED TO GO TO NON-AMERICAN LABOR TO BE ABLE TO CONTINUE TO COMPETE WITH NON-AMERICAN FIRMS. LIKewise AT LEAST ONE JOINT VENTURE AMERICAN BANK (AMERICAN EXPRESS) HAS TOLD US THEY EXPECT TO HAVE TO RECRUIT EUROPEANS FOR FORESEEABLE FUTURE BECAUSE OF HIGHER COST OF AMERICAN EMPLOYEES BROUGHT ABOUT BY NEW TAX LAWS.

4. OTHER CATEGORY OF AMERICANS IN CAIRO ARE THOSE WORKING IN EDUCATIONAL, PHILANTHROPIC, AND MISSIONARY ENDEAVORS, AS WELL AS SMALL SCALE COMPANIES. MANY OF THE EDUCATIONAL AND MISSIONARY PERSONNEL ARE, OF COURSE, ALREADY TREATED IN SPECIAL CATEGORY.
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FOR OTHERS CONTINUATION OF TAX INCREASE WILL MEAN THEY PROBABLY NO LONGER CAN AFFORD TO STAY ABROAD. WE ARE ALREADY COPING WITH SOME ADVERSE EFFECTS IN IMPLEMENTING AID CAPITAL DEVELOPMENT PROJECTS. CONTRACTORS HAVE INCREASED THEIR COSTS IN AN EFFORT TO ASSURE AVAILABILITY OF PERSONNEL. (GOE HAS EXPRESSED DISMAY AT HIGH COST OF OUR PERSONNEL, COMPARED TO EUROPEANS.) IT IS OBVIOUS THAT IF AID WERE NOT PAYING FOR DESIGN AND CONSTRUCTION, AMERICAN COMPANIES WOULD NOT EVEN BE CONSIDERED FOR PROJECTS BECAUSE OF HIGH COSTS, MOST OF WHICH ARE RELATED TO PERSONNEL. THERE ARE FEW, IF ANY, AMERICAN WHO ARE HIRED DIRECTLY BY GOE.

5. BASED ON OUR SAMPLING IN EGYPT, LARGE AND EVEN MEDIUM-SIZED COMPANIES WILL PROBABLY FIND A WAY TO COPS WITH INCREASED TAXES, ALTHOUGH IN MANY CASES THIS WILL MEAN ADDITIONAL PROBLEMS FOR PERSONNEL IN TERMS OF FAMILY SEPARATION AND RELATED QUESTIONS. IN THE LONGER TERM IT IS THE SMALL COMPANIES AND INDEPENDENT AMERICANS WHO WILL BE HARDEST HIT AND WHO WILL PROBABLY DECIDE TO GO HOME. FROM THE STANDPOINT OF IMPACT, HOWEVER, IT IS THIS

LATTER CATEGORY OF AMERICANS WHO STAND, AS AMBASSADOR DICKMAN POINTED OUT SO WELL IN REF B, TO MAKE MAJOR IMPACT IN TERMS OF BASIC ORIENTATION AND IN TERMS OF FURTHERANCE OF US NATIONAL INTERESTS.

6. IN LINE WITH ABOVE, IT SEEMS CLEAR THAT TAX BURDEN RESULTS IN GREAT INEQUITIES WHICH ARE MOST SEVERE FOR INDIVIDUALS EMPLOYED ON PRIVATE BASIS AND WHO RECEIVE BENEFITS, E.G., HOUSING, IN LIEU OF SALARIED COMPENSATION. WISH EMPHASIZE HERE, IT IS THE INCLUSION OF EXTRA BENEFITS IN TAXABLE INCOME WHICH IN MAINLY CAUSING THE PROBLEM, NOT THE REDUCTION IN TAX-FREE INCOME OR THE INCREASED RATE ON INCOME ABOVE THE TAX-FREE BASE. FOR INSTANCE, AN AUC PROFESSOR WITH ACTUAL SALARY OF \$12,000-\$15,000 MIGHT WELL RECEIVE FURNISHED QUARTERS WHICH COST LE 750 PER MONTH VIRTUALLY DOUBLING HIS SALARY FOR TAX PURPOSES. SUCH AN INDIVIDUAL HAS NO RECOURSE TO EMPLOYER FOR TAX PAYMENT. MOREOVER, TAX BURDEN PROPORTIONALLY HEAVIER THAN ON SALARIED UNCLASSIFIED

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COMPANY EXECUTIVE WHO MAY RECEIVE \$60,000 EXCLUSIVE OF HOUSING AND EXPENSE ACCOUNTS. IN LATTER CASE INCREMENTAL TAX FOR LIVING ABROAD WILL BE ASSUMED BY COMPANY (AGAIN TAXABLE AS BENEFIT) BUT EFFECT FALLS LESS DIRECTLY ON EXECUTIVE. GOAL OF TAX LAW OBVIOUSLY NOT ATTAINED AS TAX OPERATES REGRESSIVELY ON LOWER INCOME GROUPS, FORCING EDUCATORS , ETC., TO RETURN AND SEEK STATE-SIDE EMPLOYMENT WHILE HIGH-INCOME COMPANY EMPLOYEES ARE CUSHIONED FROM FULL IMPACT.

7. TWO QUESTIONS SEEM PERTINENT: A) IS THE REDUCTION IN AMERICAN PRESENCE ABROAD, WHICH THE 1976 TAX REFORM IN ITS PRESENT FORM WILL BRING ABOUT, IN THE U.S. INTEREST? AND B) IF IT IS NOT, WHAT CAN REALISTICALLY BE DONE? IT WOULD APPEAR THAT GREAT EFFORT WAS EXPENDED TO HAVE THE RETROACTIVE CLAUSE REPEALED. OBVIOUSLY THE CONGRESS DID NOT PERCEIVE THE NEED TO MITIGATE THE IMPACT OF THE LAW ITSELF.

8. IN OUR OPINION THE IMPACT OF THE TAX REFORM IS ADVERSE, AND WE BELIEVE DEPTS OF STATE AND COMMERCE SHOULD MAKE THOROUGH STUDY OF OVERALL EFFECT OF THE DEPARTURE OF OVERSEAS AMERICANS THROUGH 1980, QUANTIFYING LOSS OF SALES, CONSTRUCTION AND CONSULTING CONTRACTS, REDUCTION IN POTENTIAL INFLUENCE IN EDUCATIONAL AND PHILANTHROPIC FIELDS, ETC. DEPENDING ON RESULTS, APPROACH SHOULD BE MADE TO CONGRESS TO DEMONSTRATE NEGATIVE ASPECTS ABROAD OF 1976 TAX REFORM ACT REVISION OF SECTION 911. EILTS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
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Control Number: n/a
Copy: SINGLE
Sent Date: 31-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
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Document Unique ID: 00
Drafter: n/a
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Expiration:
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Format: TEL
From: CAIRO
Handling Restrictions: n/a
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Legacy Key: link1977/newtext/t1977054/aaaaacvo.tel
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